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SUBJECT: 2010 INVESTMENT CLIMATE STATEMENT FOR AUSTRIA

REF: 09 STATE 124006

¶1. Following is the 2010 Investment Climate Statement for Austria, keyed to reftel instructions:

2010 INVESTMENT CLIMATE STATEMENT -- AUSTRIA
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Introduction
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Major structural conditions and the decisive parameters for foreign investors remain unchanged and favorable, despite the global economic crisis. As a small, open and highly internationalized economy, Austria is swayed by global developments, including the world downturn in 2009, when GDP shrank 3.5%, which was less than expected and less than the Eurozone dip, but still the first full-year recession in Austria since 1981 and the deepest in more than 50 years. As of January 2010, the Austrian economy is projected to grow again in 2010 and 2011, but only by around 1.5%. Economists predict that the recovery will be slow, bumpy, and beset with downside risks.

With European Union (EU) enlargements in May 2004 and January 2007, Austria solidified its central position in the EU. As an investment location, however, Austria, and Vienna in particular, faces growing competition from its Eastern neighbors, all of which are EU members. Budapest, Prague and Bratislava compete directly with Vienna for foreign investors. Over the longer term Austria must enhance efforts to maintain its role as hub for business in Central, Eastern and Southeastern Europe (CESEE). Austria must further improve inadequate transport links to CESEE neighbors, ease regulatory red tape for overseas managers and other specialist staff, and promote language capabilities. The sale of national carrier Austrian Airlines (AUA) to German Lufthansa in 2009 may signal a lesser role for Vienna International Airport over the long term. Border controls between Austria and the Czech Republic, Hungary, Slovakia, and Slovenia were lifted when the EU's Schengen area expanded to those countries in December 2007. Some 340 U.S. companies have invested in Austria; most have expanded their original investment over time.

Austria continues to offer advantages for foreign investors, but it also presents challenges.

Openness to Foreign Investment
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Government attitude towards foreign private investment: Observers do not expect Austria's basic policies and openness to foreign direct investment to change under the current coalition government between the center-left Social Democratic Party (SPO) and the center-right People's Party (OVP) which took office in December 2008 for a five-year term. The coalition program includes commitments to promote foreign investment and further strengthen Austria's attractiveness as a location for investment and headquarters for international firms. Like the grand coalition itself, Austria's government program is broad-based and the government is unlikely to reverse structural and economic reforms implemented after 1990. Reforms will continue at a slow pace and with an emphasis on social policy rather than deregulation, liberalization, or privatization.

The Austrian government profits from extensive structural reforms implemented in recent years, which helped streamline government, create a more competitive business environment, and strengthen Austria's attractiveness as a location for investment. Austria made a major policy shift from 2000 to 2006 by pursuing liberal market reforms, a largely balanced budget, pension reform, privatizations, reorganizing financial market supervision and competition policy, and implementing a corporate tax cut in 2005. The reforms improved the Austrian economy's long-term growth potential, but Austria remains in transition from a highly regulated economy with a large government sector to a flexible social market economy.

In 2007/2008, the reform agenda came to a standstill: with the prospect of new elections in September 2008, parties engaged in a spending spree by instituting a thirteenth monthly family allowance and a higher nursing care allowance, abolishing university student fees, extending the option of early retirement without cuts in pension payments, and cutting the VAT on pharmaceuticals from 20% to 10%. These pre-crisis measures bolstered private consumption but led to a higher budget deficit. Since the onset of the global crisis, the current government has acted decisively to prevent a credit crunch, stimulate economic activity, and avert mass unemployment by implementing large stimulus measures including an income tax cut, new infrastructure investments, an increase in public consumption and subsidies, and a large-scale financial sector rescue package. The most urgent policy challenge, once growth returns, is to scale back Austria's budget deficit and its burgeoning public debt, which will reach 75-80% of GDP by 2011. Economists concur that the economy will be too weak in 2010 to begin

consolidation, but urge the government to set out soon an austerity roadmap concentrating on expenditures. Given the scale of Austria's deficit, experts say the government will probably also need to pursue revenue increases. Other important issues the government must address include: improving the school education system; streamlining administration; reform of health-care delivery; sustainability of the pension system; ensuring adequate, affordable long-term care for Austria's aging population; and improving R&D policy. With economic growth rates of no more than 2% until at least 2014 (according to forecasts), unemployment is likely to persist at current levels and remain a major economic policy challenge.

Austria has a low incidence of industrial unrest and has been virtually strike-free since 2003.

Liberalization and deregulation in the energy and telecom sectors have lowered business costs. However, remaining barriers to entry such as over 50% government ownership of providers have resulted in only limited competition. There are few incentives for customers to switch from incumbent electricity and gas providers, and pricing is not completely transparent.

Austria welcomes foreign direct investment that does not have a negative impact on the environment. Austrian authorities particularly welcome investments that create new jobs in high technology fields, promote capital-intensive industries, and have links to R&D activities, for which special tax incentives are available. Austria remains a high-tax country overall with a heavy personal income tax burden, but due to a 25% corporate tax rate, it has become increasingly attractive as a headquarters location. Because of tax base adjustments, experts estimate the effective corporate tax burden at no more than 22%. Austria also offers a highly favorable framework for group taxation, unique in Europe, which allows business to offset profits and losses of group operations (requiring direct or indirect participation of more than 50%, but no other financial, economic or organizational integration) in Austria and abroad. This group taxation system offers interesting opportunities for U.S. investors, in particular joint-venture structures, M&A transactions, headquarter companies and simple holding companies without active business, which can also benefit from group taxation. Austria's corporate tax rate and group taxation rules make it competitive vis-a-vis its EU neighbors. Austria has no wealth or net worth tax, no trade tax, and no inheritance and gift taxes (only a reporting requirement).

There are no sectoral or geographic restrictions on foreign investment. In some regions, Austria offers special facilities and services ("cluster packages") to foreign investors. For example, these can include automotive producers or manufacturers of integrated circuits, silicon, and high-tech products. Austria offers financial and tax incentives within EU parameters to firms undertaking projects in economically depressed and underdeveloped areas on Austria's eastern and southern borders. In most of these areas, eligibility for co-financing subsidies under EU regional and cross-border programs has declined under the EU's 2007-2013 financial framework from EUR 2 billion to EUR 1.3 billion.

Resistance to investment in the industrial sector may arise from environmental concerns. Potential U.S. investors need to factor Austria's strict environmental laws into their decision-making process. While import bans have been lifted, Austrian laws make it impossible in practice to cultivate even EU-approved biotechnology crops. For new varieties, EU legislation on the release of genetically modified organisms (GMOs) and on traceability and labeling requires Austria to allow approved seeds in fields and in stores. However, strict liability regulations and co-existence rules apply on research, production, and distribution of biotechnology crops. Many industries also fall under the greenhouse-gas Emissions Trading System, part of the EU's implementation of the Kyoto Protocol.

In investor surveys and international rankings, Austria consistently earns high marks for political stability, personal security, quality of life, rule of law, skill and motivation of labor, productivity and quality, social factors and health infrastructure, business, trade, investment and financial freedoms. Austria receives lower marks for economic growth, tax burden, high cost of living, lack of risk capital financing, low innovation dynamics, restrictive immigration laws, size of the public sector, and regulatory red tape, particularly for starting a business.

The International Institute for Management Development's (IMD) 2009 World Competitiveness Scoreboard ranks Austria sixteenth, down from the fourteenth position in 2008. The Swiss Economic Institute's (KOF) 2009 Globalization Index, which measures economic, social and political globalization, ranks Austria number five (by comparison, the U.S. was thirty-eighth, the UK twenty-seventh, and Germany twenty-second) The 2009 Index of Economic Freedom of The Heritage Foundation/Wall Street Journal ranks Austria number twenty-three worldwide and eleven among the 43 European countries. The World Bank's Ease of Doing Business Index 2009 ranks Austria twenty-eighth (by comparison, the U.S. was fourth). The World Economic Forum's (WEF) 2009 Global Competitiveness Index ranks Austria number seventeen.

2009 Scoreboard	Rank
IMD World Competitiveness Scoreboard	16
KOF's Globalization Index	5
Heritage Foundation Economic Freedom Index	23
World Bank's Ease of Doing Business Index	28
WEF's Global Competitiveness Index	17
WEF'S Availability of Latest Technologies Index	13
TI's Corruption Perception Index	16

Acquisitions, mergers, takeovers, cartels: Austria's Anti-Trust Act is in line with European Community anti-trust regulations, which also apply and take precedence over national regulations in cases between Austria and other EU member states. The independent Federal Competition Authority (FCA) and the Federal Cartel Prosecutor (FCP) are responsible for administering anti-trust laws. The FCA has not been particularly pro-active, reportedly due to limited personnel.

The Austrian Anti-Trust Act prohibits cartels, any competitive restrictions, and abuse of a dominant market position. Companies must inform the FCA about mergers and acquisitions (M&A) concerning domestic enterprises, if combined worldwide sales exceed EUR 300 million ($417 million at the 2009 average exchange rate of $1.00 / EUR 0.72), domestic sales exceed EUR 30 million ($41.7 million), or if two of the firms involved each have worldwide sales exceeding EUR 5.0 million ($6.9 million). Special M&A regulations apply to media enterprises. The cartel court is competent to decide on any M&A notification from the FCA or the FCP. For violations of anti-trust regulations, the cartel court can impose fines of up to the equivalent of 10% of a company's annual worldwide sales. An independent energy regulatory authority separately examines antitrust concerns in the energy sector, but also has to submit any cases to the cartel court.

Austria's Takeover Law applies to friendly and hostile takeovers of corporations headquartered in Austria and listed on the Vienna Stock Exchange. It protects investors against unfair practices, since any shareholder obtaining a controlling stake in a corporation (30% or more in direct or indirect control of a company's voting shares) must offer to buy out smaller shareholders at a defined "fair market" price. The law also includes provisions for shareholders who passively obtain a controlling stake in a company, i.e., not by buying additional shares, but because another large shareholder has reduced his/her shareholding. The law prohibits defensive action to frustrate bids; it has not implemented the EU's Takeover Directive's breakthrough regulations, but allows individual companies to address these in company bylaws. The Shareholder Exclusion Act allows a primary shareholder, with at least 90% of capital stock, to "squeeze out" minority shareholders. An independent takeover commission at the Vienna Stock Exchange oversees compliance with these laws.

Screening mechanisms: Only those foreign investments with financial assistance from the Austrian government are subject to government overview. Screening ensures compliance with EU regulations, which limit such assistance to disadvantaged geographic areas.

Privatizations: After many successful privatizations in previous years, the government did not privatize any public enterprises in 2007, 2008 or 2009, except Austrian Airlines (AUA), of which it sold 42% to the German Lufthansa (LH) in December 2008. However, the AUA sale was not a typical privatization, but rather a crisis sale to a strategic partner for a symbolic price, in order to resolve AUA's cash crunch and avert a shutdown; in September 2009, LH took over 100% in AUA. The government program does not identify any public enterprises for privatization, so no major privatizations are expected in 2010 or 2011. The larger party in the new coalition government, the Social Democratic Party, has announced its opposition to further privatization, including of the federal railroads and the postal service. Last year the recession and the situation on stock and capital markets practically ruled out privatizations, aside from the Austrians increasingly skeptical attitude toward them. In past privatizations, foreign and domestic investors received equal treatment. Despite Austrian authorities' historical preference for having domestic shareholders keep a blocking minority, foreign investors have successfully gained control of enterprises in strategic sectors of the Austrian economy, including telecoms, banking, steel production, power generation and infrastructure. For example, in 2007, the U.S. investment fund Cerberus Capital Management bought about 90% of BAWAG P.S.K. Bank, Austria's fourth largest banking group, from its previous owner, the Austrian Trade Union Federation.

Treatment of foreign investors: There is no discrimination against foreign investors, but they are required to follow numerous regulations. Although there is no requirement for participation by Austrian citizens in ownership or management, at least one manager must meet residence and other legal requirements. Non-residents must appoint a representative in Austria. Expatriates are allowed to deduct certain expenses (costs associated with moving, maintaining a double residence, education of children) from Austrian-earned income. The Austrian immigration law requires those applying for resident permits to take German courses, but does exempt applicants for residence permits from the German language course requirement, if they hold a university degree. The U.S. Embassy is aware of a U.S. investor who faced unfair bureaucratic delays and added costs when it attempted to introduce competition to a market entirely dominated by a large local employer.

Investment incentives: Since 2007, Austria has had less access to funds from various EU structural and cohesion programs, primarily regional competitiveness and employment programs. The Austrian federal, state, and local governments also provide financial incentives within EU guidelines to promote investments in Austria. Incentives under these programs are equally available to domestic and foreign investors, and range from tax incentives to preferential loans, guarantees and grants. Most of these incentives are available only if the investment meets specified criteria (e.g., implementation of new technology, reducing unemployment, etc.). Tax allowances for advanced employee training and R&D expenditures are also available. Austria Wirtschaftsservice is the government's "one-stop shop" institution providing financial incentives. Further information, in the German language only, is available from http://www.awsg.at/portal/.

Conversion and Transfer Policies

Austria has no restrictions on cross-border capital transactions, including the repatriation of profits and proceeds from the sale of an investment, for non-residents and residents. The Euro, a freely convertible currency and the only legal tender in Austria and fifteen other Euro-zone member countries, shields investors from exchange rate risks within the Euro-zone.

Expropriation and Compensation

Expropriation of private property in Austria is rare and may proceed only on the basis of special legal authorization. The government can initiate it only in the absence of any other alternative to satisfy the public interest; when the action is exclusively in the public interest; and when the owner receives just compensation. The

expropriation process is fully transparent and non-discriminatory toward foreign firms.

Dispute Settlement

The Austrian legal system provides an effective means for protecting property and contractual rights of nationals and foreigners. Additionally, Austria is a member of the International Center for the Settlement of Investment Disputes. The 1958 New York Convention also grants enforcement of foreign arbitration awards in Austria.

Performance Requirements/Incentives

Austria is in compliance with the World Trade Organization's Trade Related Investment Measures (TRIMS) agreement. There are virtually no restrictions on foreign investment in Austria and foreign investors receive national treatment in the main. However, some requirements exist. For example, at least one manager must meet residency and other legal qualifications. Non-residents must appoint a representative in Austria.

The Austrian government may impose performance requirements when foreign investors seek financial or other assistance from the government, although there are no performance requirements to gain access to tax incentives. There is no requirement that nationals hold shares in foreign investments or that there be a technology transfer.

The U.S. and Austria are signatories to the 1931 Treaty of Friendship, Commerce, and Consular Rights. Austrian immigration law restricts the overall number of visas, but a few non-immigrant business visa classifications, including intra-company transfers/rotational workers, and employees on temporary duty, are eligible for visas with no numerical limitations. Recruitment of long-term overseas specialists or those with managerial duties is under quota controls. Austrian law defines employment-based immigrants as multinational executives/managers or similar professionals who are self-employed. The 2005 Amendment to the Austrian Immigration Law eased the integration policy requiring immigrants to attain a minimum level of competence in the German language. Under the amendment, previous education (university degree) automatically fulfills the integration requirement. Over the years, immigration quotas have remained static at approximately 8,000 per year. The annual quota for 2010 has been set at 8,145.

Right to Private Ownership and Establishment

Foreign and domestic private enterprises are free to establish, acquire, and dispose of interests in business enterprises, except for in some infrastructure and utilities, and in a few state monopolies, such as gambling. However, through privatizations, the government may gradually open up some of these industries to private investment as well. For example, in recent years, the Austrian government implemented legal changes to allow private radio and private terrestrial TV; dismantled the postal monopoly for wire-transmitted voice telephony and infrastructure; and liberalized the electricity and gas markets. In 2006, in line with EU regulations, the government privatized 49% of its postal company. However, by law, federal and state governments maintain at least a 51% share in all electricity providers. In most business activities, the law permits 100% foreign ownership. Foreign direct investment is restricted only when competing with monopolies and utilities. Licensing requirements, such as those in the banking and insurance sectors, apply equally to domestic and foreign investors. Entrenched political interests may make it more difficult to challenge quasi-monopolies in some sectors where they still exist. However, U.S. investors have had success in this regard, especially when they have used local partners and contacted the U.S. Embassy at an early stage.

Protection of Property Rights

The Austrian legal system protects secured interests in property. The law recognizes mortgages, if recorded in the land register and if the underlying contracts are valid. For any real estate agreement to be effective, owners must register with the land registry, which requires approval of the land transfer commission or the office of the state governor. The land registry is a reliable system for recording interests in property, and any interested party has access to it.

Austria has effective laws to protect intellectual property rights, including patent and trademark laws; a law protecting industrial designs and models; and a copyright law. Austria is a party to the World Intellectual Property Organization (WIPO) and several international property conventions, including the European Patent Convention, the Patent Cooperation Treaty, the Universal Copyright Convention, and the Geneva Treaty on the International Registration of Audiovisual Works. Since both the United States and Austria are members of the "Paris Union" International Convention for the Protection of Industrial Property, American investors are entitled to the same protection under Austrian patent legislation as are Austrian nationals. Recent amendments to the Austrian Patent Act brought about more efficient and transparent implementation possibilities, and, in 2010, swifter procedures for holders of rights of registered brands against alleged breaches by newcomers.

The Austrian Copyright Act is in conformity with EU directives on intellectual property rights and grants the author the exclusive rights to publish, distribute, copy, adapt, translate, and broadcast his/her work. Infringement proceedings, however, can be time-consuming and complicated. The law also regulates copyrights of digital media (restrictions to private copies), works on the Internet, protection of computer programs, and related damage compensation. In line with EU requirements, Austria also has a law against trade in counterfeits. The Austria film and music industry lobby groups complain regularly about high rates of piracy in their fields. In 2008, Austrian customs authorities confiscated pirated goods worth EUR 83 million ($115.3 million), a six fold increase compared to 2007, mainly due to confiscated jewelry, apparel and pharmaceuticals.

Transparency of the Regulatory System

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Austria's legal, regulatory, and accounting systems are transparent and consistent with international norms. The government usually publishes proposals for new laws and regulations in draft form for public comment.

The government has made progress in streamlining its complex and cumbersome permit and paperwork requirements for business licenses and permits. It maintains to have reduced the time necessary to obtain permits to less than three months, except for large projects requiring an environmental impact assessment. The "one-stop shop" for a business permit does not include plant and building permits; simplified procedures should accelerate permit procedures, but unpredictable and inflexible bureaucratic rules can still be a problem. The government will continue plans to reduce the administrative cost burden for companies by streamlining regulations and data collection/ information requirements.

The government applies tax and labor laws uniformly, as well as health and safety standards. The government thus does not influence the allocation of investments amongst sectors. The Austrian investment climate has become more conducive for business since Austria became a member of the EU.

Efficient Capital Markets and Portfolio Investment
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Austria has modern and sophisticated financial arkets. All financial instruments are available Foreign investors have access to the Austrian arket without restrictions. Austria has a highlydeveloped banking system with worldwide correspondnt banks, and representative offices and branche in the United States an other major financial enters. Large Austrian banks also have a huge ntwork in ten of the twelve new EU members (except Mlta and Cyprus) and nine other countries in Cental, Eastern, and Southeastern Europe (CESEE) andthe former Soviet Union (FSU) and operate 68 fuly consolidated subsidiaries in CESEE/FSU. Six out of the seven largest Austrian banks hold sizeable investments in CESEE/FSU; three of them are among the five largest banking groups in the area. Austrian banks have a 15% share of the entire CESEE/FSU banking market (21.9% excluding Russia). Of Austrian bank assets in CESEE, 75% are in EU member states (countries unlikely to default outright), very little of that portion is in the crisis-stricken Baltics.

Total assets of Austria's five largest banking groups (Bank Austria, Erste Bank, Raiffeisen Zentralbank, BAWAG/Bank fuer Arbeit und Wirtschaft und Oesterreichische Postsparkasse, and Oesterreichische Volksbanken) amounted to about EUR 655 billion ($910 billion) in 2009, representing 62% of Austria's total bank assets.

The subprime crisis has had limited impact on Austrian banks, but they suffered indirectly from the worldwide financial crisis through higher refinancing costs and credit scarcity, and later, due to their strong CESEE/FSU focus, from huge loan losses and write-offs in the area. The government's EUR 100 billion ($139 billion) financial sector rescue package of October 2008, comprising EUR 15 billion ($21 billion) for equity injections into banks and insurance companies and EUR 85 billion ($118 billion) to guarantee interbank lending, helped banks to recapitalize, to maintain interbank lending and prevent a credit crunch. Most Austrian banks active in CESEE/FSU will continue to suffer loan losses in the region -- but have performed better than expected in 2009 and continue to make profits, have ramped up loan loss provisions, are taking advantage of government state aid, and appear sufficiently capitalized. Austrian banks view the situation in CESEE/FSU as difficult but manageable and all have made a strong commitment to remain in those growing markets. New stress test results for Austrian banks show that major banks could withstand even the highly adverse scenario of a "double-dip" recession; major banks' capital ratios would stay above the legal minimum, but in the medium-term they will need additional capital. In any case, all Austrian banks active in CESEE/FSU are "system-relevant" in Austria -- "too big to fail" -- so the Austrian government will not willingly allow them to collapse.

In past years, Austria has seen a number of financial sector scandals, which peaked in the government's nationalization of Kommunalkredit bank in late 2008 and Hypo Alpe Adria banking group in December 2009 to avoid their collapse. These failures may have been triggered by the financial crisis, but primarily they reflect gross mismanagement, including alleged criminal activities. These demonstrate problems and inefficiencies in the Austrian bank supervision system, and in particular a too intimate relationship between the banking sector and politics. The effectiveness of the reorganization of Austria's bank supervision system in 2008 (by instituting a strong dual-oversight system with bank supervisory roles for both the Austrian National Bank and the FMA) cannot yet be evaluated.

After a disastrous 2008 and a 61.5% drop in the Austrian Traded Index (ATX -- which represents blue chips with the largest market capitalization and highest liquidity), the Vienna Stock Exchange (VSE) rebounded in 2009 and outperformed many larger exchanges. At year-end 2009, the ATX stood at 2,496 -- 42.5% higher than a year before; market capitalization of listed domestic shares was up almost 50% from year-end 2008 at EUR 80 billion ($ 111 billion or about 29% of GDP), but still well below the 2007 level.

The Vienna Stock Exchange (VSE) uses Xetra (Deutsche Boerse's electronic trading system) for trading securities, so traders worldwide have on-screen information and direct access to all stocks listed in Vienna. Listed companies must publish quarterly reports. The VSE operates regulated markets (the Official Market and the Second Regulated Market) and Multilateral Trading Systems (MTF) pursuant to the EU's Markets in Financial Instruments Directive (MiFID), which differentiates between regulated markets and MTFs. Companies and investors should be aware that the operation of MTFs is not part of exchange trading. Therefore, the requirements of the Stock Exchange Act regarding financial instruments admitted to trading in a regulated market (especially obligations imposed on issuers) do not apply to financial instruments traded on an MTF. However, the VSE's Third Market Rules and the provisions of the Securities Supervision Act apply.

As of January 14, 2010, the stock exchanges of Budapest, Ljubljana, Prague, and Vienna are subsidiaries under a CEESEG AG holding company. Currently, CEESEG accounts for about half of total market capitalization and some two-thirds of all equity trading volumes in CESEE, making it the largest stock exchange group in the region; a total of 264 companies are listed. The VSE has signed MoUs or cooperation agreements with stock exchanges in Bosnia-Herzegovina, Bulgaria, China, Croatia, Dubai, Japan, Kazakhstan, Macedonia, Montenegro, Romania, Serbia, Slovakia, and Ukraine. The VSE publishes a Southeast Europe Traded Index (SETX) and a number of county-specific CEE/SEE indices, including for Russia.

Criminal penalties apply to insider trading, money laundering and terrorist financing. The Austrian Financial Market Authority (FMA), similar to the U.S. Securities and Exchange Commission, is responsible for policing irregularities on the stock exchange and for supervising banks, insurance companies, securities markets, and pension funds.

Austria's venture capital market is small and remains underdeveloped. After strong growth in 2005-2007, the market weakened again in 2008. Market development considerably lags behind that of the European venture capital market. The volume of private equity and venture capital raised in Austria during 1997-2008 was EUR 2.4 billion ($3.3 billion), according to the Austrian Private Equity and Venture Capital Organization (AVCO). After a 30% increase in 2006 and one of 58% in 2007, fund raising dropped 47% in 2008 to EUR 230 million ($320 million). The bulk of the money invested is used for buy-outs (almost 70%) and expansion projects, only a small portion (5%) for start-ups and seed financing.

The legal, regulatory, and accounting systems are transparent and consistent with international norms. Austrian regulations governing accounting provide U.S. investors with improved and internationally standardized financial information. In line with pertinent EU regulations, listed companies must prepare their consolidated financial statements according to the IAS/IFRS (International Financial Reporting Standards). Further, for firms with annual sales exceeding EUR 400,000 ($556,000), the Austrian Enterprise Code includes detailed accounting regulations. A Corporate Governance Code, in effect since 2006, was amended and updated effective January 1, 2010. Since June 2008, the Commercial Code stipulates a legal requirement for listed companies to attach a corporate governance report to their annual statement.

Competition from State Owned Enterprises

Private enterprises in Austria are allowed to compete with public enterprises under the same terms and conditions with respect to access to markets, credit, and other business operations, such as licenses and supplies. After many successful privatizations in previous years, public enterprises are mainly active in the area of state monopolies (e.g., gambling), utilities, hospitals, social insurance, and related sectors. In many of these sectors (e.g., hospitals, utilities) private companies are competing successfully; however, public enterprises sometimes use their influence and political connections to prolong dispute resolutions and appeal procedures and to delay implementation of remedies, which in some markets can lead to significant uncertainties.

Since many public enterprises are outsourced and organized as corporations, senior management usually does not report directly to a minister but to a board. However, the government appoints management and board members, who are usually politically-affiliated.

Austria does not have a sovereign wealth fund.

Corporate Social Responsibility

In past years, general awareness of corporate social responsibility (CSR) among both producers and consumers has risen. Major Austrian companies follow generally accepted CSR principles and publish a CSR chapter in their annual reports, many also provide information on their health, safety, security and environmental activities. CSR Europe (the leading European business network for CSR) has a local partner organization respACT (short for "responsible action"), founded in 2005 to promote CSR and sustainable development in Austria.

Political Violence

There have been no incidents of politically motivated damage to foreign businesses. Civil disturbances are extremely rare.

Corruption

Austria has ratified the United Nations Convention against Corruption (UNCAC), the OECD Anti-Bribery Convention, the Council of Europe's Civil Law Convention on Corruption and signed, but not yet ratified, the Criminal Law Convention on Corruption; it joined the Group of States against Corruption (GRECO) within the Council of Europe in 2006. In 2008, the Austrian government tightened the Criminal Code's corruption regulations and established a special central public prosecution department with Austrian-wide authority for corruption cases. In September 2009, the government amended and defined more precisely its criminal regulations against corruption (to alleviate some measures viewed as too strict), one reason why Transparency International's 2009 Corruption Perceptions Index ranked Austria 16th in non-corruption, down from number 12 in 2008 (by comparison Germany was 14th and the U.S. 19th). Criminal Code regulations cover managers of Austrian public enterprises, civil servants and other officials (holding those with functions in legislation, administration or justice on behalf of Austria, in a foreign country or an international organization), and representatives of companies. The term "corruption" includes bribery and illicit intervention; abuse of office; and accepting an advantage by public officials, senior executives of a public enterprise and experts; it could also include a private manager's fraud, embezzlement, breach of trust, or accepting consideration. Criminal penalties for all cases of corruption include imprisonment of up to several years for all parties involved. Criminal Code legislation prohibiting tax deductibility for bribes has been in

place since 1998. A separate law, the Law on Responsibility of Associations, deals with criminal responsibility for legal entities and partnerships. The law covers all criminal offences, including corruption, money laundering, and serious tax offences that are subject to the Tax Offences Act. Fines pursuant to this law can rise to as much as 180 daily rates, with one daily rate equal to one-360th of yearly income, but not less than EUR 50 ($69.5) and not more than EUR 10,000 ($13,900).

Bilateral Investment Agreements
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Austria has bilateral investment agreements in force with Albania, Algeria, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Belize, Bolivia, Bosnia-Herzegovina, Bulgaria, Cape Verde, Chile, China, Croatia, Cuba, Egypt, Estonia, Ethiopia, Georgia, Hong Kong, Hungary, India, Iran, Jordan, Kuwait, Latvia, Lebanon, Libya, Lithuania, Macedonia, Malaysia, Malta, Mexico, Moldova, Mongolia, Montenegro, Morocco, Namibia Oman, Paraguay, Philippines, Poland, Romania, Saudi Arabia, Serbia, Slovenia, South Korea, South Africa, Tunisia, Turkey, Ukraine, United Arab Emirates, Uzbekistan, Vietnam, and Yemen.

Austria has signed agreements with Cambodia, Guatemala and Zimbabwe, but the agreements are still pending ratification by those countries and have not yet entered into effect. An agreement with Tajikistan has been initialed, and agreements with Bahrain and Turkmenistan are ready for initialing. An agreement with North Korea was initialed in 2001, but has not been signed. Until new agreements take effect, the existing agreements with the former Czechoslovakia continue to apply to the Czech Republic and Slovakia, and that with the former Soviet Union to Russia and Tajikistan. Austria and Russia are negotiating a new agreement. Under all these agreements, if parties cannot amicably settle investment disputes, a claimant submits the dispute to the International Center for Settlement of Investment Disputes or an arbitration court according to the UNCITRAL arbitration regulations.

The U.S. and Austria are parties to a bilateral double taxation treaty covering income and corporate taxes, which went into effect on February 1, 1998. Another bilateral double taxation treaty, covering estates, inheritances, gifts and generation-skipping transfers, has been in effect since 1982. In September 2009, Austria enacted new procedures for handling foreign tax information requests (limiting bank secrecy in those cases), but the new law is not yet applicable to the U.S.-Austria tax agreements.

OPIC and Other Investment Insurance Programs
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OPIC programs are not available for Austria. Austria is a member of the Multilateral Investment Guarantee Agency (MIGA).

Labor
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Austria has a highly educated and productive labor force of approximately 4.3 million, of whom 3.7 million are employees and 600,000 are self-employed or farmers. Austria's labor market is more rigid than that of the U.S., but more flexible than markets in some other EU member states. Depending on labor demand, government policies limit the number of foreign workers to 8-10% of the salaried workforce. In 2009, the number of guest workers, predominantly from the former Yugoslavia and Turkey, averaged 430,000. As part of the 2004 EU enlargement, Austria adopted a 7-year transition period vis-a-vis eight of the ten new EU members (except Cyprus and Malta) before fully allowing free movement of labor. In May 2009, the EU Commission approved the Austrian government's plans to extend the restrictions for a final two years, i.e., until May 2011. For Bulgaria and Romania, which joined the EU on January 1, 2007, Austria adopted the same 7-year transition period, which the government plans to maintain until 2014 despite appeals by Austrian employers.

Compared to other EU countries, Austria had a relatively low unemployment rate of 5.0% in 2009. After record employment in 2008 and an unemployment rate of 3.8%, the recession in 2009 had a severe impact on the labor market. The 2010/11 forecasts call for an unemployment rate of about 5.5, the projected economic growth of only around 1.5% in both years will be insufficient to prevent unemployment rising. As long as the economy does not grow again by around 2% or more, labor demand will not increase. For this reason, analysts expect no labor market shortages in the medium term. Also, while demographic trends indicate little growth in the labor force over the next few years, factors such as industrial restructuring, productivity gains, increased participation of women and older employees in the workforce and efforts to reduce civil service employment will help guarantee sufficient labor supply. Over the longer term, additional immigration, including from EU member states, will be necessary to balance the impact of low birth rates on the overall labor supply. Long-term population estimates indicate a slight increase in the working age population (15-60 years) to 5.27 million by 2015, up from 5.18 million in 2007, but then a decline to 5.20 in 2020 and further to 4.93 million in 2030, indicating a need for additional immigration.

In general, skilled labor is available in sufficient numbers. However, regional shortages of highly specialized laborers in specific sectors, such as systems administration, metalworking, healthcare, and tourism, may occur. An issue to watch is the growing number of low-qualified school leavers -- 10% of those leaving school have only lower secondary education, 20% of the 15-year olds show low reading literacy performance. Figures for 2008 show that Austria has exceeded the EU goals for 2010 of a labor market participation rate of 70% (now 72.1%) and for women of 60% (now 65.8%). Austria, however, has not yet reached the 50% goal for workers aged 55-64 (41.0%). Companies hiring workers age 50 and above are eligible for financial bonuses, and face penalties for laying off workers within this age group.

Austrian social insurance is compulsory and comprises health insurance, old-age pension insurance, unemployment insurance, and accident insurance. Employers and employees contribute a percentage of total monthly earnings to a compulsory social insurance fund. Although EU requirements encourage greater job flexibility, various Austrian laws closely regulate terms of employment. These include

working hours, minimum vacation time (five weeks), holidays, maternity leave, statutory separation notice, protection against dismissal, and an option for parents with children under the age of seven to choose part-time work for several years. The latter regulation only applies to parents working for companies with at least 20 employees. The severance pay system aims to enhance worker flexibility by providing employees the right to carry their accrued entitlements with them to subsequent jobs. Ongoing issues, which could seriously affect the social insurance system, are an increasing deficit of the health insurance system, the immense shortage of nursing personnel to care for the fast growing number of elderly, and the lack of funding for available nursing personnel, which could eventually lead to a rise in social insurance contributions.
Since World War II, labor-management relations have generally been harmonious in Austria, as reflected in extremely low strike figures in past decades. No major work stoppages have occurred since 2005. About 35% of the work force belongs to a union. The difficult economic period ahead is likely to raise again the unions' importance and help sharpen their profile, while it will probably temper short-term wage and benefit demands.

Collective bargaining revolves mainly around wage adjustments and fringe benefits. About 80% of the labor force worked under a collective bargaining agreement. All collective bargaining agreements meanwhile provide for a minimum wage of EUR 1,000 per month. Existing legal provisions stipulate a maximum workweek of 40 hours, but collective agreements also provide for a workweek of 38 or 38.5 hours per week for more than half of all employees. Flexible work hour regulations, in place since 2008, allow firms to increase the maximum regular time hours from 40 to 50 per week. In special cases and including overtime, work hours can be raised up to 60 hours per week for a maximum of 24 weeks annually. However, these 24 weeks can only be in 8-week segments, with at least two weeks break between each 8-week slot. Responsibility for agreements on flextime or 4-day work weeks lies on the company level. Part time employment is high in Austria: 39% of female workers and 4% of male workers have part time jobs. On average, Austrian employees are absent 12 days annually for sickness.

Foreign Trade Zones/Free Ports

Austria has no foreign trade zones.

Foreign Direct Investment Statistics

The net inflow of new foreign direct investment (FDI) in 2008 reached EUR 9.5 billion ($13.2 billion). This was only about half of the EUR 22.8 billion ($31.6 billion) in 2007, a figure which was, however, inflated by the takeover of Bank Austria, Austria's largest bank, by the Italian UniCredit from its former owner Bayerische Hypovereinsbank (HVB), which likewise also inflated the 2008 FDI outflow figure. New FDI in the first three quarters of 2009 amounted to EUR 5.4 billion ($7.4 billion). The value of FDI stock in Austria was about EUR 117.6 billion ($163.4 billion) at the end of 2008 and an estimated EUR 122.9 billion ($170.9 billion) by end-September 2009.

In 2008, U.S. investment accounted for about 7% of total FDI in Austria. This represented a decline from 9.1% of total FDI in Austria in 2007. The decline in U.S. FDI from 2007 was primarily due to the takeover of GE Money Bank by the Spanish Bank Santander.

At EUR 20.0 billion ($27.8 billion), the flow of Austrian direct investment abroad in 2008 was about 30% below the 2007 record (in part due to the sale of Bank Austria, see above). More than half of the amount was invested in CESEE countries. In the first three quarters 2009, FDI abroad was only EUR 2.8 billion ($3.9 billion). This raised the value of Austrian direct investment stock abroad to about EUR 122.6 billion ($170.4 billion) at the end of 2008 and an estimated EUR 125.4 billion ($174.3 billion) by end-September 2009.

Note: Figures converted at the 2009 annual average exchange rate of $1.00 for EUR 0.72.
Source: Austrian National Bank.

Austria's International Investment Position (EUR billion)

Year	2007	2008 (1)	2009 (2)
FDI in Austria	108.1	117.6	122.9
Austrian FDI Abroad	102.6	122.6	125.4

Footnotes:
(1) preliminary figures;
(2) first three quarters, preliminary figures.

FDI in Austria - Source Country Breakdown 2008
(share of total in percent)

U.S.	7.0
Germany	25.8
Italy	23.0
Netherlands	7.2
U.K.	5.4
Switzerland/Liechtenstein	5.2
Gulf States	4.2
Japan	4.1
All other countries	18.1

Austrian FDI Abroad - Destination Country Breakdown 2008(share of total in percent)

U.S.	2.8
Germany	13.9
Hungary	7.3
Czech Republic	7.1
Croatia	6.2
Romania	5.5

Ukraine	4.8
Switzerland/Liechtenstein	4.6
Russia	4.2
Netherlands	4.1
U.K.	3.7
Slovakia	3.6
Poland	3.0
Italy	3.0
Bulgaria	3.0
All other countries	23.2

List of Major Foreign Investors:
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More than 340 U.S. firms hold investments in Austria, which range from simple sales offices to major production facilities. The following is a short list of U.S. firms holding major investments in Austria.

American Express Bank Ltd.
Baxter International Inc.
Capital Research and Management Company
Cerberus Capital Management
Cisco Systems, Inc.
Citibank Overseas Investment Corp.
The Coca-Cola Company
CSC Computer Sciences Corporation
Deloitte & Touche LLP
Eaton Corp.
Electronic Data Systems Corp.
ExxonMobil Corporation
General Electric Company
General Motors Corp.
Harman International Industries Inc.
Hewlett-Packard Company
Honeywell Inc.
IBM World Trade Corp.
ITT Fluid Technology Corp.
Johnson & Johnson Int.
Johnson Controls Inc.
Kraft Foods International, Inc.
Lear Corporation
Lem Dyn Amp
McDonald's Corporation
Marriott International, Inc.
Mars Inc.
MeadWestVaco Corp.
Merck & Co., Inc.
Modine USA
One Equity Partners
Otis Elevator Co.
Pioneer Hi-Bred International Inc.
PricewaterhouseCoopers LLP
PQ International Inc.
Quintiles Transnational Corp.
Schindler Elevator Corp.
Starwood Hotels and Resorts Worldwide, Inc.
Toys"R"Us, Inc.
UGI Corporation
United Global Com, Inc.
Unysis Corporation
Verizon Information Services Inc.
Western Union
Worthington Cylinder Corp.
York International
Xerox Corporation

The following is a brief list of firms, headquartered in countries other than the U.S., holding major investments in Austria.

Alcatel Holding, Netherlands
Allianz AG, Germany
Amer, Finland
Asea Brown Boveri, Switzerland
Assicurazioni Generali, Italy
Axel Springer Verlag, Germany
Banco Santander, Spain
BASF, Germany
Bayer AG, Germany
Bayerische Motorenwerke (BMW), Germany
Bombardier, Canada
Bosch Robert AG, Germany
Borealis, Denmark
BP Amoco, UK
Criteria CaixaCorp., Spain
DaimlerChrysler, Germany
Detergenta Investment, Germany
Deutsche Telekom, Germany
DM Drogerie Markt, Germany
Electricite de France, France
Electrolux, Sweden
Epcos AG, Germany
Ericsson, Sweden
Flextronics International, Singapore
Fomento de Construcctiones & Contratas, Spain
Heineken, Netherlands
H&M, Netherlands
Infineon, Netherlands
Japan Tobacco, Japan
Kone Corp., Finland
Koramic, Belgium
Liebherr, Switzerland
Magna, Canada
MAN, Germany
Metro, Germany
Mondi Europe, Luxembourg and UK
Nestle S.A., Switzerland
NKT Cables, Denmark
Novartis, Switzerland
Nycomed Holding, Denmark
Philips, Netherlands
Plus Warenhandel, Germany
RENO, Germany

REWE, Germany
RWE, Germany
Sanfoi-Aventis, France
Sappi Ltd, South Africa
Schlecker, Germany
Shell Petroleum N.V., Netherlands
Siemens, Germany
Smurfit Group, Ireland
Solvay et Cie, Belgium
Sony, Japan
Sueddeutscher Verlag, Germany
Svenska Cellulosa Ab (SCA), Sweden
Unibail-Rodamco, France-Netherlands
UniCredit Group, Italy
Unilever N.V., Netherlands
Voith, Germany
Westdeutsche Allgemeine Zeitung (WAZ), Germany
Xi'an Aircraft Industry (Group) Company Ltd., China

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